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Washington, D.C. 20549

**ANNUAL AUDITED REPORT  
FORM X-17A-5  
PART III**

AB 3/28/06

OMB APPROVAL	
OMB Number:	3235-0123
Expires:	January 31, 2007
Estimated average burden hours per response.....	12.00

SEC FILE NUMBER
8- 49352

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**Information Required of Brokers and Dealers Pursuant to Section 17 of the  
Securities Exchange Act of 1934 and Rule 17a-5 Thereunder**

REPORT FOR THE PERIOD BEGINNING January 1, 2005 AND ENDING December 31, 2005  
MM/DD/YY MM/DD/YY

**A. REGISTRANT IDENTIFICATION**

NAME OF BROKER-DEALER: The Jeffrey Matthews Financial Group, LLC  
ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

OFFICIAL USE ONLY
FIRM I.D. NO.

284 Millburn Avenue

(No. and Street)

Millburn

(City)

New Jersey

(State)

07041

(Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT

(Area Code - Telephone Number)

**B. ACCOUNTANT IDENTIFICATION**

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report\*

Friedman LLP100 Eagle Rock Avenue

(Address)

(Name - if individual, state last, first, middle name)

East Hanover

(City)

NJ

(State)

07936

(Zip Code)

CHECK ONE:

- ☒ Certified Public Accountant  
☐ Public Accountant  
☐ Accountant not resident in United States or any of its possessions.

PROCESSED

JUN 12 2006

THOMSON  
FINANCIAL

SECURITIES AND EXCHANGE COMMISSION  
RECEIVED

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BRANCH OF REGISTRATIONS  
AND

FOR OFFICIAL USE ONLY

02 EXAMINATIONS

\*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See Section 240.17a-5(e)(2)

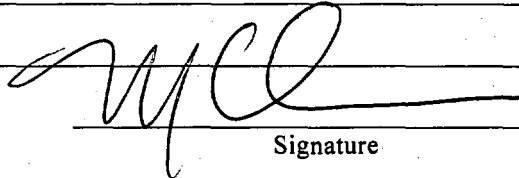
SEC 1410 (06-02)

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## OATH OR AFFIRMATION

I, Matthew Cohen, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of The Jeffrey Matthews Financial Group, LLC, as of December 31, 2005, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:

  
Signature

Managing Member  
Title

  
Notary Public

**AMY WARREN**

Notary Public of New Jersey  
My Commission Expires 5/1/2010

This report \*\* contains (check all applicable boxes):

- ☒ (a) Facing Page.
- ☒ (b) Statement of Financial Condition.
- ☒ (c) Statement of Income (Loss).
- ☒ (d) Statement of Changes in Financial Condition.
- ☒ (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietors' Capital.
- ☒ (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- ☒ (g) Computation of Net Capital.
- ☐ (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- ☐ (i) Information Relating to the Possession or Control Requirements Under Rule 15c3-3.
- ☒ (j) A Reconciliation, including appropriate explanation of the Computation of Net Capital Under Rule 15c3-1 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
- ☐ (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- ☒ (l) An Oath or Affirmation.
- ☐ (m) A copy of the SIPC Supplemental Report.
- ☐ (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.
- ☒ (o) Independent Auditors' report on internal accounting control

\*\*For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).

**THE JEFFREY MATTHEWS FINANCIAL GROUP, L.L.C.**

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# FRIEDMAN LLP

ACCOUNTANTS AND ADVISORS

## INDEPENDENT AUDITORS' REPORT

To the Members

The Jeffrey Matthews Financial Group, L.L.C.

We have audited the accompanying statement of financial condition of The Jeffrey Matthews Financial Group, L.L.C. as of December 31, 2005, and the related statements of income, changes in members' equity, cash flows and changes in liabilities subordinated to claims of general creditors for the year then ended that you are filing pursuant to rule 17a-5 under the Securities Exchange Act of 1934. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements and assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Jeffrey Matthews Financial Group, L.L.C. as of December 31, 2005 and the results of operations, cash flows and changes in liabilities subordinated to claims of general creditors for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The information contained in Schedule I is presented for purposes of additional analysis and is not a required part of the basic financial statements, but is supplementary information required by rule 17a-5 under the Securities Exchange Act of 1934. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Friedman LLP*

January 25, 2006

**THE JEFFREY MATTHEWS FINANCIAL GROUP, L.L.C.**

**STATEMENT OF FINANCIAL CONDITION  
DECEMBER 31, 2005**

**ASSETS**

Cash	\$ 13,484
Receivable from clearing organization	25,169
Securities owned, at market value	3,159,715
Secured demand notes collateralized by marketable securities	646,500
Accrued interest receivable	36,296
Furniture, equipment and improvements - at cost, net	42,709
Other assets	266,192
	<hr/>
	\$ 4,190,065

**LIABILITIES AND MEMBERS' EQUITY**

Payable to clearing organization	\$ 1,981,812
Securities sold, not yet purchased, at market value	45,765
Accounts payable, accrued expenses and other liabilities	386,094
	<hr/>
	2,413,671
Commitments and contingencies	
Liabilities subordinated to claims of general creditors	646,500
	<hr/>
Members' equity	1,129,894
	<hr/>
	\$ 4,190,065

See notes to financial statements.

THE JEFFREY MATTHEWS FINANCIAL GROUP, L.L.C.

STATEMENT OF INCOME  
YEAR ENDED DECEMBER 31, 2005

**Revenues**

Commissions	\$ 1,820,841
Trading income	4,551,738
Investment income	213,778
Underwriting income	11,329
Other	8,534
	<hr/>
	6,606,220

**Expenses**

Employee compensation and benefits	4,439,567
Interest	181,278
Clearance charges	338,310
Communications	50,485
Occupancy	248,205
Promotional costs	75,998
Data processing costs	60,388
Bad debt expense	46,463
Regulatory fees	117,655
Depreciation and amortization	32,403
Other operating expenses	658,556
	<hr/>
	6,249,308

<b>Net Income</b>	<hr/>
	\$ 356,912

See notes to financial statements.

**THE JEFFREY MATTHEWS FINANCIAL GROUP, L.L.C.**

**STATEMENT OF CHANGES IN MEMBERS' EQUITY  
YEAR ENDED DECEMBER 31, 2005**

<b>Balance, January 1, 2005</b>	<b>\$ 944,038</b>
Net income	356,912
Member distributions	(171,056)
<b>Balance, December 31, 2005</b>	<b>\$ 1,129,894</b>

See notes to financial statements.

THE JEFFREY MATTHEWS FINANCIAL GROUP, LLC

STATEMENT OF CASH FLOWS  
YEAR ENDED DECEMBER 31, 2005

**Cash flows from operating activities**

Net Income	\$ 356,912
Adjustments to reconcile net income to net cash provided by operating activities	
Depreciation	30,596
Amortization	1,807
Changes in assets and liabilities	
Receivable from clearing organization	73,176
Securities owned	(753,585)
Accrued interest receivable	(6,121)
Other assets	(39,433)
Payable to clearing organization	639,957
Securities sold, not yet purchased	30,052
Accounts payable, accrued expenses and other liabilities	(140,596)

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Net cash provided by operating activities	192,765
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**Cash flows from investing activities**

Acquisition of furniture and equipment	(16,267)
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**Cash flows from financing activities**

Member distributions	(171,056)
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Net increase in cash	5,442
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Cash, beginning of year	8,042
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Cash, end of year	\$ 13,484
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**Supplemental cash flow disclosures**

Interest paid	\$ 181,278
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See notes to financial statements.



**THE JEFFREY MATTHEWS FINANCIAL GROUP, L.L.C.**

**STATEMENT OF CHANGES IN LIABILITIES SUBORDINATED  
TO CLAIMS OF GENERAL CREDITORS  
YEAR ENDED DECEMBER 31, 2005**

Balance, January 1, 2005	\$ 646,500
Proceeds from subordinated notes	-
Balance, December 31, 2005	\$ 646,500

See notes to financial statements.

# **THE JEFFREY MATTHEWS FINANCIAL GROUP, L.L.C.**

## **NOTES TO FINANCIAL STATEMENTS**

### **1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### **Description of Business**

The Jeffrey Matthews Financial Group, L.L.C. (the Company), organized in 1996, is a broker-dealer registered with the Securities and Exchange Commission and is a member of the National Association of Securities Dealers, Inc. The Company operates a sales office in New Jersey and acts as a broker and dealer of products consisting primarily of municipal bonds, corporate bonds and stocks. The Company has a finite life which will terminate upon the occurrence of a specified terminating event or December 1, 2050, whichever occurs first.

Operating in the securities industry subjects the Company to economic and political trends and conditions.

Security transactions and related revenues and expenses are recorded on a trade date basis. All investments at December 31, 2005 are held by the Company's clearing organization.

#### **Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### **Concentration of Credit Risk for Cash**

The Company maintains its cash balances at one financial institution. These balances are insured by the Federal Deposit Insurance Corporation up to \$100,000.

#### **Customer List**

A customer list is being amortized on the straight-line method over 15 years.

#### **Member Equity**

In accordance with the operating agreement, each member has made an initial capital contribution to the Company in varying amounts of cash. Additional capital contributions shall be required only with the written consent of the members. No interest shall be due from the Company on any capital contribution of any member. Net income and net losses in respect of each fiscal year of the Company shall be allocated to the members, on the last day of such fiscal year, in amounts proportionate with the members' interests in the Company. The members shall have no liability or obligation for any debts, liabilities or obligations of the Company beyond the members respective capital contribution or obligation to make a capital contribution, except as expressly required by applicable law.

(Continued)

# THE JEFFREY MATTHEWS FINANCIAL GROUP, L.L.C.

## NOTES TO FINANCIAL STATEMENTS

### 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Depreciation and Amortization

Depreciation is computed utilizing accelerated methods over the estimated useful lives of the assets ranging from 5 to 7 years. Leasehold improvements are amortized using the straight-line method over estimated useful lives or the term of the lease, whichever is shorter.

#### Commissions

Commissions and related clearing expenses are recorded on a trade-date basis as securities transactions occur.

#### Advertising

Advertising costs totaling \$11,969 are expensed as incurred.

#### Income Taxes

The Company is organized as a limited liability company (LLC) whereby the members account for the Company's earnings, losses, deductions and credits on their individual income tax returns. Accordingly, these statements do not include any provision of Federal and state income taxes.

### 2 - SECURITIES OWNED AND SOLD, NOT YET PURCHASED

Marketable securities owned and sold, not yet purchased, consist of trading debt and equity securities recorded at market values, as follows:

	Owned	Sold But Not Yet Purchased
State and municipal obligations	\$ 2,159,878	\$ 15,685
Corporate stocks, options and warrants	999,837	30,080
	<u>\$ 3,159,715</u>	<u>\$ 45,765</u>

### 3 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

Office equipment	\$ 175,975
Furniture and fixtures	17,650
Leasehold improvements	119,279
	<u>312,904</u>
Less: Accumulated depreciation and amortization	<u>270,195</u>
	<u>\$ 42,709</u>

# THE JEFFREY MATTHEWS FINANCIAL GROUP, L.L.C.

## NOTES TO FINANCIAL STATEMENTS

### 4 - OTHER ASSETS

Other assets consist of the following:

Investments	\$ 52,500
Customer list, net of amortization of \$ 16,260	10,840
Prepaid expenses	85,644
Security deposits	50,186
Notes receivable, employees	47,517
Due from employees	19,505
	<hr/>
	\$ 266,192

Included in other assets are 1,500 shares of stock of the Nasdaq Stock Market, Inc. (Nasdaq) and 300 warrants to purchase shares of Nasdaq owned by the National Association of Securities Dealers, Inc. (NASD). Each warrant entitles the holder to purchase four shares of common stock of Nasdaq owned by NASD. These warrants are exercisable commencing on the second anniversary of issue date through the fifth anniversary of issue date at exercise prices ranging from \$13 to \$16 per share (issue date June 2000). These securities, acquired through private placement are subject to certain restrictions on transferability and are recorded at fair market value totaling \$ 52,500 at December 31, 2005.

### 5 - PAYABLE TO CLEARING ORGANIZATION

The payable to clearing organization represents loans collateralized by marketable securities at the broker call rate of 5.8% at December 31, 2005.

### 6 - LIABILITIES SUBORDINATED TO CLAIMS OF GENERAL CREDITORS

Borrowings under subordination agreements, from related parties, at December 31, 2005 are as follows:

Liabilities pursuant to secured demand note  
collateral agreements are as follows:

Due December 31, 2008	\$ 220,000
Due December 31, 2008	92,500
Due June 15, 2006	46,000
Due June 15, 2006	100,000
Due June 15, 2006	25,000
Due June 15, 2006	75,000
Due June 15, 2006	17,000
Due June 24, 2006	10,000
Due July 1, 2006	15,000
Due July 1, 2006	46,000
	<hr/>
	\$ 646,500

(Continued)

THE JEFFREY MATTHEWS FINANCIAL GROUP, L.L.C.

NOTES TO FINANCIAL STATEMENTS

6 - LIABILITIES SUBORDINATED TO CLAIMS OF GENERAL CREDITORS (Continued)

The subordinated borrowings are covered by agreements approved by the National Association of Securities Dealers, Inc. and are thus available in computing net capital under the Securities and Exchange Commission's net capital rule. To the extent that such borrowings are required for the Company's continued compliance with minimum net capital requirements, they may not be eligible for repayment.

7 - COMMITMENTS AND CONTINGENCIES

The Company is obligated under non-cancelable operating leases for vehicles and equipment, as well as office facilities owned by individuals related to certain members, expiring in various years through March 2010. In addition to base rent on its office facilities, the Company is required to pay its proportionate share of real estate taxes, maintenance and insurance.

The Company is obligated under a non-cancelable operating lease for additional office space expiring August 31, 2007. A capital lease obligation, included in other liabilities, requiring monthly payments of \$646, including interest, expires in June 2007. The obligation is collateralized by office equipment having a capitalized cost of \$29,375 less accumulated depreciation of \$24,299 at December 31, 2005.

The future minimum rental payments, including obligations under capital leases, are as follows:

	Total	Office	Other	Capital Lease
2006	\$ 236,934	\$ 170,659	\$ 59,389	\$ 6,886
2007	197,394	175,961	17,683	3,750
2008	181,039	172,500	8,539	--
2009	88,962	86,250	2,712	--
2010	678	--	678	--
	\$ 705,007	\$ 605,370	\$ 89,001	\$ 10,636

Rent expense under all operating leases was approximately \$317,000 for the year ended December 31, 2005. Included in rent expense is approximately \$159,000 paid to a related party for the year ended December 31, 2005.

In 1997, the Company and two of its officers were named in an action, pending in the United States Bankruptcy Court for the District of New Jersey. The action alleged that the principal of a now bankrupt company transferred and converted customer lists and other assets to the Company for less than reasonably equivalent value and, therefore, either the assets or cash value should be returned to the bankruptcy estate. The case has been settled and is in the process of being approved by the Bankruptcy Court. Under the proposed settlement, there will be no liability to the Company.

(Continued)

**THE JEFFREY MATTHEWS FINANCIAL GROUP, L.L.C.**

**NOTES TO FINANCIAL STATEMENTS**

**7 - COMMITMENTS AND CONTINGENCIES (Continued)**

The Company has been named as a defendant in customer litigations incidental to the securities business. Management, after discussions with legal counsel, believes any unfavorable outcomes in these litigations will not have a material effect on the financial statements.

**8 - RELATED PARTY TRANSACTIONS**

See notes 6 and 7 for related party transactions.

**9 - DEFERRED COMPENSATION PLAN**

The Company maintains a 401(K) non-contributory deferred compensation plan which covers substantially all employees. Participants are permitted, in accordance with the provisions of section 401(K) of the Internal Revenue Code, to contribute a portion of their gross earnings into the Plan.

**10 - REGULATORY REQUIREMENTS**

As a registered broker-dealer, the Company is subject to the net capital provisions of rule 15c3-1 of the Securities Exchange Act of 1934, which requires that the Company's aggregate indebtedness shall not exceed fifteen times net capital, as defined, under such provision. At December 31, 2005 the Company had net capital of \$1,265,951 which exceeded requirements by \$1,165,951. The ratio of aggregate indebtedness to net capital was .41 to 1.

The Company operates its securities transactions under the provisions of (K)(2)(ii) of Rule 15c3-3 of the Securities and Exchange Commission as a fully disclosed broker-dealer and accordingly, customer accounts are carried on the books of the clearing broker.

**11 - FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET CREDIT RISK**

In the normal course of business, the Company's customer activities involve the execution, settlement and financing of various customer securities. These activities may expose the Company to off-balance sheet credit risk in the event the customer is unable to fulfill its contracted obligations. The Company is therefore exposed to risk of loss on these transactions in the event of a contra party being unable to meet the terms of their contracts which may require the Company to purchase or sell financial instruments at prevailing market prices

**THE JEFFREY MATTHEWS FINANCIAL GROUP, L.L.C.**

**NOTES TO FINANCIAL STATEMENTS**

**12 - FAIR VALUE DISCLOSURES**

Due to the nature of its operations, substantially all of the Company's assets are comprised of securities owned. Securities owned are carried at market value based on quoted market prices. Similarly, substantially all of the Company's liabilities arise from a payable to clearing organization and securities sold, but not yet purchased. The payables are short-term in nature and the carrying amounts are a reasonable estimate of fair value. Securities sold, but not yet purchased, are carried at market value based on quoted market prices.

**SUPPLEMENTARY INFORMATION**

Pursuant to Rule 17a-5 of the Securities Exchange Act of 1934

As of December 31, 2005



**SCHEDULE I**

**THE JEFFREY MATTHEWS FINANCIAL GROUP, L.L.C.**

**COMPUTATION OF NET CAPITAL UNDER RULE 15c3-1 OF  
THE SECURITIES AND EXCHANGE COMMISSION  
AS OF DECEMBER 31, 2005**

**COMPUTATION OF NET CAPITAL**

Total members' equity	\$ 1,129,894
Additions	
Liabilities subordinated to claims of general creditors allowable in computation of net capital	646,500
Total capital and allowable subordinated liabilities	1,776,394
Deductions and/or charges	
Non-allowable assets	309,302
Net capital before haircuts on securities positions	1,467,092
Haircuts on securities positions	
State and municipal government obligations	137,230
Other securities	63,911
	201,141
NET CAPITAL	\$ 1,265,951

**SCHEDULE I (CONTINUED)**  
**THE JEFFREY MATTHEWS FINANCIAL GROUP, L.L.C.**

**COMPUTATION OF NET CAPITAL UNDER**  
**RULE 15c3-1 OF THE SECURITIES AND EXCHANGE COMMISSION**  
**AS OF DECEMBER 31, 2005**

**COMPUTATION OF AGGREGATE INDEBTEDNESS**

Accounts payable, accrued expenses and other liabilities includable in aggregate indebtedness	\$ 513,115
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AGGREGATE INDEBTEDNESS	513,115
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**COMPUTATION OF BASIC NET CAPITAL REQUIREMENT**

Minimum net capital required (greater of 6 2/3% of aggregate indebtedness or minimum net capital requirement)	\$ 100,000
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EXCESS NET CAPITAL	\$ 1,165,951
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EXCESS NET CAPITAL AT 1,000 PERCENT	\$ 1,214,639
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RATIO: AGGREGATE INDEBTEDNESS TO NET CAPITAL	.41 to 1
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Reconciliation with Company's computation (included in Part II of Form X-17A-5 as of December 31, 2005)

Net capital, as reported in Company's Part II (Un-audited) Focus report	\$ 1,266,351
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Increases (decreases) resulting from December 31, 2005 audit adjustments, net	(400)
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Net capital, as included in this report	\$ 1,265,951
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# FRIEDMAN LLP

ACCOUNTANTS AND ADVISORS

## INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL STRUCTURE REQUIRED BY RULE 17a-5 OF THE SECURITIES AND EXCHANGE COMMISSION

To the Members  
The Jeffrey Matthews Financial Group, L.L.C.

In planning and performing our audit of the financial statements of The Jeffrey Matthews Financial Group, L.L.C. for the year ended December 31, 2005, we considered its internal control, including control activities for safeguarding securities, in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

Also, as required by Rule 17a-5 (g)(1) of the Securities and Exchange Commission (SEC), we have made a study of the practices and procedures followed by the Company including tests of such practices and procedures that we considered relevant to the objectives stated in rule 17a-5(g) in making the periodic computations of aggregate indebtedness (or aggregate debits) and net capital under rule 17a-3(a)(11) and for determining compliance with the exemptive provisions of rule 15c3-3. Because the Company does not carry securities accounts for customers or perform custodial functions relating to customer accounts for customers or perform custodial functions relating to customer securities, we did not review the practices and procedures followed by the Company in any of the following:

1. Making quarterly securities examinations, counts, verifications, and comparisons.
2. Recordation of differences required by rule 17a-13.
3. Complying with the requirements for prompt payment for securities under Section 8 of Federal Reserve Regulation T of the Board of Governors of the Federal Reserve System.

The management of the Company is responsible for establishing and maintaining an internal control structure and the practices and procedures referred to in the preceding paragraph. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of controls, and of the practices and procedures referred to in the preceding paragraph, and to assess whether those practices and procedures can be expected to achieve the SEC's above-mentioned objectives. Two of the objectives of internal control and the practices and procedures are to provide management with reasonable but not absolute assurance that assets for which the Company has responsibility are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with managements authorization and recorded properly to permit the preparation of financial statements in conformity with generally accepted accounting principles. Rule 17a-5 (g) lists additional objectives of the practices and procedures listed in the preceding paragraph.

The Jeffrey Matthews Financial Group, L.L.C.

Because of inherent limitations in internal control or the practices and procedures referred to above, errors or fraud may occur and not be detected. Also, projection of any evaluation of them to future periods is subject to the risk that they may become inadequate because of changes in conditions or that the effectiveness of their design and operation may deteriorate.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of the specific internal control components does not reduce to a relatively low level the risk that error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we noted no matters involving the internal control activities for safeguarding securities that we consider to be material weaknesses as defined above.

We understand that practices and procedures that accomplish the objectives referred to in the second paragraph of this report are considered by the SEC to be adequate for its purposes in accordance with the Securities Exchange Act of 1934 and related regulations, and that practices and procedures that do not accomplish such objectives in all material respects indicate a material inadequacy for such purposes. Based on this understanding and on our study, we believe that the Company's practices and procedures were adequate at December 31, 2005, to meet the SEC's objectives.

This report is intended solely for the information and use of management, the SEC, National Association of Securities Dealers, Inc. and other regulatory agencies that rely on rule 17a-5 (g) under the Securities Exchange Act of 1934 in their regulation of registered brokers and dealers, and is not intended to be and should not be used by anyone other than these specified parties.

*Friedman LLP*

East Hanover, New Jersey  
January 25, 2006